

# Memorandum

To: Panel Members Date: June 26, 2003

From: Ron Tagami, Manager  
Peter DeMauro, General Counsel Analyst: N. Weingart

Subject: One-Step Agreement for **Oberthur Card Systems**  
(www.oberthurusa.com)

## **CONTRACTOR:**

- Training Project Profile: Retraining Companies with Out-of-State Competition
- Legislative Priorities: Moving to a High Performance Workplace & Promoting California's Manufacturing Workforce
- Type of Industry: Manufacturing Credit Cards
- Repeat Contractor: Yes
- Contractor's Full Time Employees:
  - Company Wide: 3,100
  - In California: 321
- Fringe Benefits: Yes
- Union Representation: No
- Name and Local Number of Union representing workers to be Trained: N/A

## **CONTRACT:**

- Program Costs: \$186,550
- Substantial Contribution: \$0
- Total ETP Funding: \$186,550
- In-Kind Contribution: \$209,000
- Reimbursement Method: Fixed-Fee
- County(ies) Served: Los Angeles
- Duration of Agreement: 24 months

**SUBCONTRACTORS:**

Catalyst Training and Consulting, Palo Alto, California (\$132,000 for training)

**THIRD PARTY SERVICES:**

Catalyst Training and Consulting assisted with completion of the ETP Application. There was no reimbursement for these services.

**PRIOR PROJECTS:**

The following are completed project statistics for ETP Agreements with this Contractor within the last five years:

Agreement No.	Location (City)	Term	Agreement Amount	Amount Earned	% Earned
ET00-0179	Rancho Dominguez	11/29/99-11/28/01	\$452,000	\$265,280	59%

Contractor reports that the number of trainees that completed the program was lower than anticipated due to (1) lack of hiring and training in the Smart Card department, and (2) production scheduling conflicts in the Conventional Card operation, which hindered staff from attending training. For the new Agreement, the Contractor plans to secure full management support for the program, better identify and define the training population, and improve class scheduling to avoid production conflicts.

**NARRATIVE:**

Oberthur Card Systems (Oberthur) is eligible to provide ETP training under Title 22, California Code of Regulations, Section 4416(b) as a company engaged in manufacturing that meets the out-of-state competition requirements for purposes of Panel funding. The Contractor also meets ETP's funding priorities to develop workers with skills that prepare them for the challenges of a high performance workplace of the future and that promote the retention and expansion of the state's manufacturing workforce as specified in Unemployment Insurance Code, Section 10200 (b)(3) and (7).

Oberthur Card Systems, a subsidiary of Francois-Charles Oberthur Group, manufactures credit cards and smart cards for banking (debit/credit and electronic cash cards), identity, health, government identification, phone use, pay per view television, access control, and SIM cards for GSM (Subscriber Identity Module for Global System for Mobile Communication). The company headquarters and production facility are located in Rancho Dominguez, employ 321 workers, and currently have the capacity to produce 200 million cards per year. Customers include the U.S. Government, Bank of America, Discover, American Express, Wells Fargo, Provident, First USA, US Bank, American Automobile Association (AAA), and Kaiser Permanente.

The Contractor reports that the card manufacturing industry is facing many challenges. With a weak economy, companies have been cutting prices in order to maintain production volume. The U.S. market has been slow to adopt the new Smart Card platform, leading to lower than expected revenue in a highly profitable area of the credit card business. In addition, bank mergers and consolidations have prompted customers to use the Internet to establish long term contracts through reverse auctions, or a bidding process. Suppliers must compete to secure volume business from these banks. This has created a significant drop in the average selling price of a credit card at Oberthur.

**NARRATIVE:** (continued)

To remain profitable as overall revenues drop, the company must continue to drive down costs and improve worker skills. To this end, Oberthur will be purchasing a centralized Statistical Process Control (SPC) software package, Infinity QS, at a cost of \$20,000 to \$30,000, to significantly reduce process variation, standardize process control procedures, and provide customers with statistical data that demonstrates that all products exceed its expected quality levels. Training will be provided on this new system as well as in advanced Continuous Improvement for manufacturing operations and the management of those operations. Frontline workers will learn department-specific continuous improvement measures to improve production output, quality and reduce rework. Management will become accountable for understanding and interpreting process control data and be proactive in identifying and resolving problems.

**Continuous Improvement** courses will include: Advanced Problem Solving; Problem Solving Tools/Implementation Skills; Activity-Based Costing/Financial Analysis; ISO (International Standard Organization) 9000 Process Standardization; Statistical Process Control (SPC); and Advanced Statistical Process Control (SPC).

The company expects training to result in standardization and consistency of all processes, the ability of teams to quickly isolate and solve production problems, the ability of production and management personnel to identify process variation and react before quality issues arise, and an overall increase in attention to customer needs.

The Contractor will administer the Agreement.

**Supplemental Nature of Training**

Currently, Oberthur provides new employee orientation training, forklift certification training, and safety awareness updates. The company has also been cross-training manufacturing personnel to work in different departments or on different equipment as weekly production volumes change. Most of this training has been hands-on on the shop floor. In the previous ETP Agreement, the company began its transition to a high performance workplace by retraining frontline workers and managers in Manufacturing Skills, Continuous Improvement, Business Skills, Management Skills, and Literacy Skills. This prior program focused on improvements and standardization throughout the newly created Smart Card manufacturing area, but did not reach the Conventional Card operation.

The Contractor stated that the prior Continuous Improvement (CI) training focused on small teams identifying and implementing ways to cut production costs. While this has been effective, the teams are narrow in scope and do not include the larger number of people who now need to get more actively involved. Process Improvement training has been conducted in a classroom setting with the Production Manager as team facilitator. However, due to a lack of team structure and a heavy workload for facilitators, these meetings are held on an irregular basis.

The newly proposed ETP training will only be for Continuous Improvement courses. It will build on the basic techniques provided in the first Agreement, provide training in more advanced core CI tools, and be customized to the specific needs of each department or operation. The program will include about 120 repeat trainees who will receive new subject matter and 70 workers who have never taken part in ETP training. With ETP funding, the Contractor will have the resources to increase its training population and provide more CI courses via regularly scheduled classes and team meetings than would otherwise be possible.

**NARRATIVE:** (continued)

At the conclusion of the Agreement, the Contractor proposes to continue perfecting process improvements in all departments for all staff. Additional training in the new SPC software will be given to keep staff abreast of updates and changes.

**In-Kind Contribution**

The Contractor will provide an in-kind contribution of approximately \$209,000 comprised of \$114,000 in trainee wages during training and \$95,000 for training-related expenses not covered by ETP funding including advanced software development and customization and Information Systems support for continued staff training in conjunction with ETP classroom courses, training supplies, and consulting services to work with trainees to implement changes learned in ETP classroom training.

**COMMENTS:**

Contractor agrees that during ETP-funded training hours, trainees will not produce products or provide services that will ultimately be sold.

No executive level staff that set company policy have been included in the Agreement.

Participants in this project meet the Panel definition of frontline worker under Title 22, California Code of Regulations, Section 4400(ee) except for 6 Managers.

There is no substantial contribution on this Agreement since it is only the second Agreement for this Contractor.

**PROPOSED ACTION:**

Staff recommends that the Panel approve the One-Step Agreement if funding is available and the project meets the Panel priorities. This recommendation is based on Oberthur's stated need to provide its employees with advanced high performance workplace skills to enhance the company's ability to remain competitive and to grow.

**TRAINING PLAN:**

Grp/Trainee Type	Types of Training	No. Retain	No. Class/Lab Videocnf. Hrs	No. CBT Hrs	No. SOST Hrs.	Cost per Trainee	Hourly Wage after 90 days
Retrainee Jobs 1	Continuous Improvement	205	40-100	0	0	\$910	*\$11.92-\$35.00
					<b><u>Range of Hourly Wages</u></b>		
					*\$11.92-\$35.00		
					<b><u>Prevalent Hourly Wage</u></b>		
					\$11.92		
					<b><u>Average Cost per Trainee</u></b>		
					\$910		
<b><u>*Health Benefit used to meet ETP minimum wage:</u></b>					<b><u>Turnover Rate</u></b>		<b><u>% of Mgrs &amp; Supervisors to be trained:</u></b>
Health benefits of at least \$1.99 per hour will be applied to the base wage in order to meet the ETP minimum hourly wage.					17.6%		3%

## **Oberthur Card Systems Curriculum**

Class/Lab Hours

40-100

### **Continuous Improvement**

Advanced Problem Solving

Problem Solving Tools/Implementation Skills

Activity-Based Costing/Financial Analysis

ISO (International Standard Organization) 9000 Process Standardization

Statistical Process Control (SPC)

Advanced Statistical Process Control (SPC)